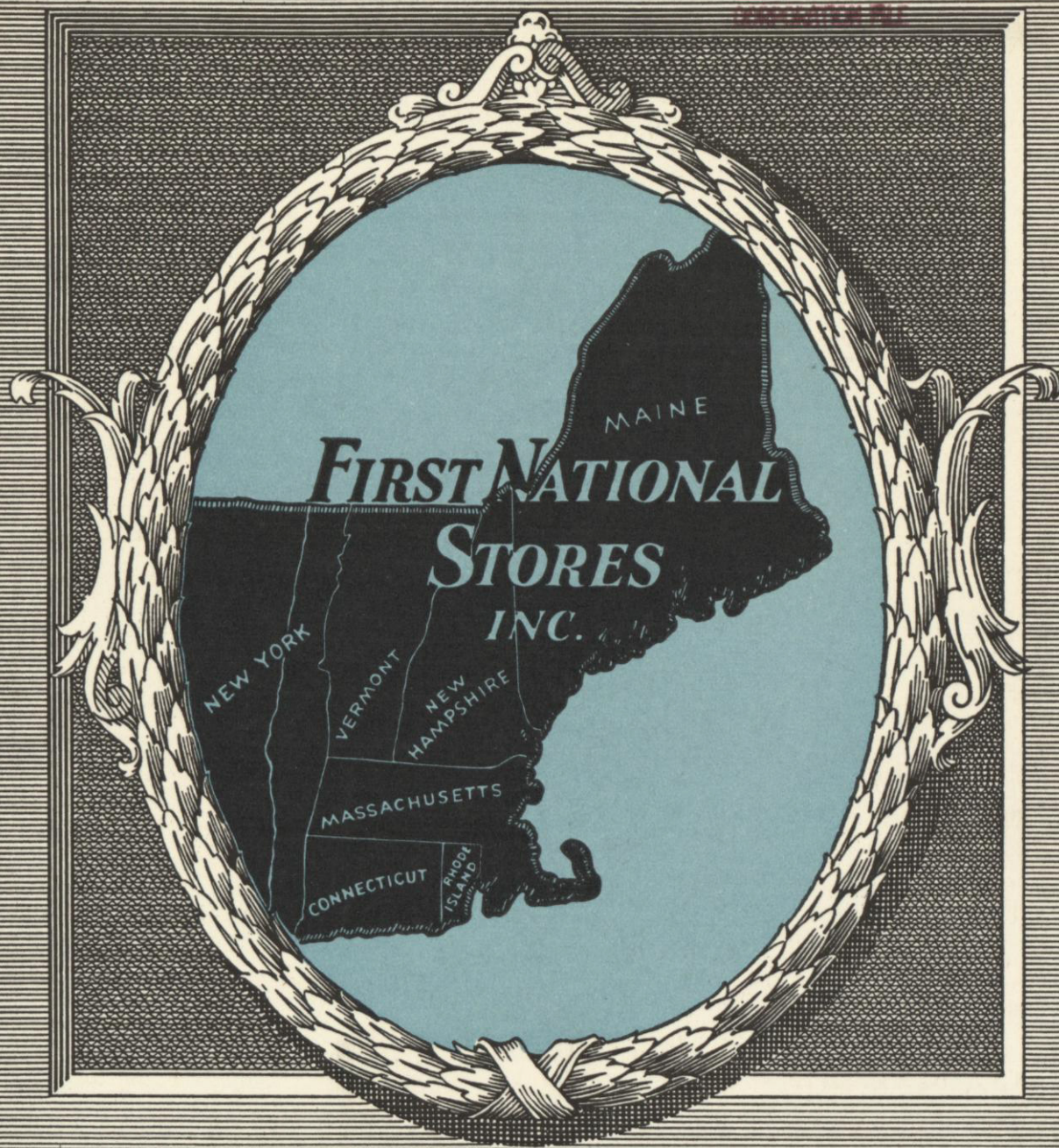


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Annual Report
FIRST NATIONAL STORES INC.
year ending

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March 28th 1942

FIRST NATIONAL STORES INC.

Officers

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE	<i>Vice-President</i>
BERNARD F. MCGOLDRICK	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
RALPH F. BURKARD	<i>Assistant Treasurer</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

CHARLES F. ADAMS
RALPH F. BURKARD
MORRIS JOSELOFF
BERNARD F. MCGOLDRICK
ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS
CHARLES H. BURGER
RALPH F. BURKARD
JAMES C. DUANE
BYRON M. FLEMMING
ROBERT F. IRWIN
MORRIS JOSELOFF

SAMUEL JOSELOFF
JOHN L. MACNEIL
BERNARD F. MCGOLDRICK
JAMES J. O'HARE
MICHAEL J. O'HARE
ARTHUR O'KEEFFE
NATHANIEL E. WHITTEMORE

FIRST NATIONAL STORES INC.

NOTICE OF ADJOURNED STOCKHOLDERS'
ANNUAL MEETING

The annual meeting of the stockholders called for June 22, 1942 was adjourned until July 13, 1942.

The adjourned meeting will reconvene at the office of the Company, 5 Middlesex Avenue, Somerville, Massachusetts, on Monday, July 13, 1942 at ten o'clock in the forenoon for the purposes set forth in the original notice of June 5, 1942.

The Annual Report of the Company is enclosed.

JOHN E. ELWELL

Clerk

Somerville, Mass., June 26, 1942

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF CHEMISTRY

PHYSICAL CHEMISTRY

LABORATORY

CHICAGO, ILL.

MEMORANDUM

TO: [Illegible]

FROM: [Illegible]

SUBJECT: [Illegible]

DATE: [Illegible]

Somerville, Massachusetts, June 26, 1942.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending March 28, 1942 is presented herewith.

The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent accountants, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this report.

Results of the operations for the year show an increase in our sales of 22%. Our final net profit for the fiscal year, after all charges and Federal Taxes, amounted to \$2.90* per share as compared with \$3.06 per share for the previous fiscal year.

*Our Warehouse Inventories at March 28, 1942, were valued on the basis of "last-in, first-out", whereas at the end of previous fiscal years the warehouse inventories were determined on the basis of "cost or market whichever is lower." If the basis of "cost or market whichever is lower" had been used at March 28, 1942 in valuing our warehouse inventories, our net profit after Federal Taxes would have been \$3.60 per share. Our Federal Tax Return for the fiscal year ending March 28, 1942, will be filed on the basis of "last-in, first-out" for our warehouse inventories. Should this method be disallowed—the taxable earnings would be increased by \$2,069,781 and the liability for Federal Taxes increased by \$1,498,389.

In all other respects the figures given in this report are comparable with those of prior years.

The following is a condensed summary of operations for the fiscal year ending March 28, 1942, compared with operations for the fiscal year ending March 29, 1941. There is also shown the financial position of this Company at March 28, 1942 compared with March 29, 1941.

	<i>For The Fiscal Year Ending</i>	
	<i>March 28, 1942</i>	<i>March 29, 1941</i>
Retail stores sales	\$174,378,932	\$142,680,921
Net profits after taxes, depreciation and all charges and available for dividends	\$2,380,294	\$2,508,719
Earnings per share of common stock (on shares outstanding at end of year)	\$2.90	\$3.06
		<i>As of</i>
	<i>March 28, 1942</i>	<i>March 29, 1941</i>
Net working capital (current assets less current liabilities)	\$15,392,546	\$15,073,655
Fixed or property assets (less depreciation)	\$9,703,822	\$9,771,200
Net worth	\$25,625,755	\$25,293,286
Earned surplus	\$18,889,476	\$18,492,334

On the following page graphic charts show the results of our operations for the past sixteen years.

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

	<i>Fiscal Years</i>		
	<i>1942</i>	<i>1941</i>	<i>1940</i>
Depreciation charges	\$1,004,865	\$972,868	\$ 953,731
Maintenance repairs and renovation charges	\$1,118,664	\$1,132,894	\$1,329,888

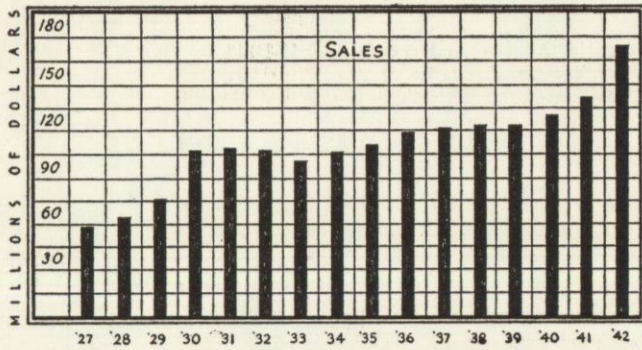
The above amounts were charged to earnings in their respective years to cover the depreciation, maintenance repairs and renovation (including the cost of conversion of service stores to self-service stores) of all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

DIVIDENDS PAID

Four quarterly dividends of 62½ cents a share totalling \$2.50 were paid for the fiscal year on the common stock outstanding.

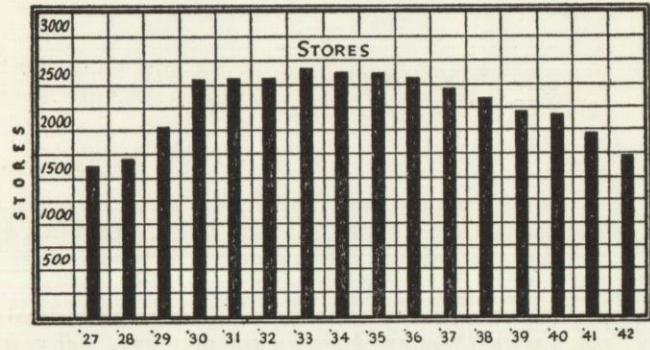
GROCERY STORES AND MARKETS

	<i>March 28, 1942</i>	<i>March 29, 1941</i>
Your company had in operation on		
Grocery Stores	1,299	1,457
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	449	466
Total Grocery Stores and Markets	1,748	1,923



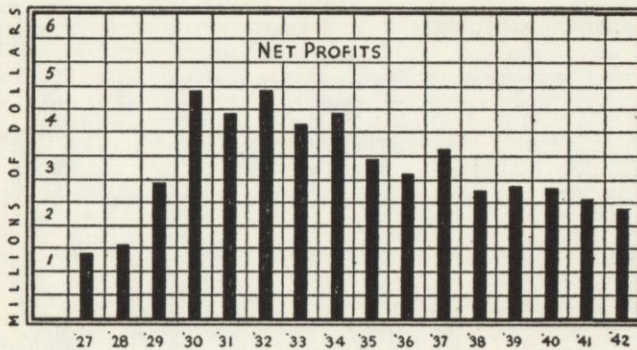
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1933	\$100,892,947	1939	\$124,222,955
1928	64,445,962	1934	105,812,781	1940	131,041,157
1929	75,884,639	1935	111,323,463	1941	142,680,921
1930	107,635,216	1936	119,575,417	1942	174,378,932
1931	108,196,686	1937	120,682,961		
1932	107,634,383	1938	124,294,617		



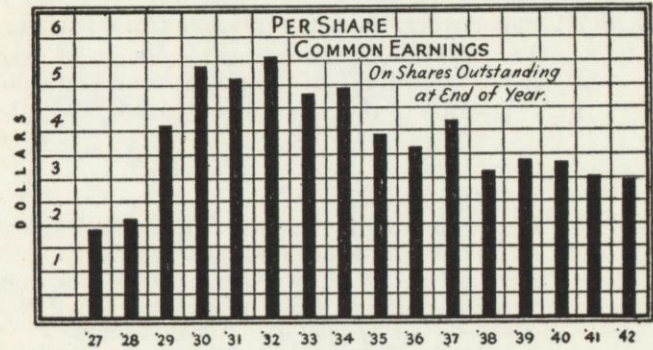
Stores—Fiscal Years

1927	1681	1933	2705	1939	2244
1928	1717	1934	2653	1940	2137
1929	2002	1935	2623	1941	1923
1930	2549	1936	2556	1942	1748
1931	2548	1937	2473		
1932	2546	1938	2350		



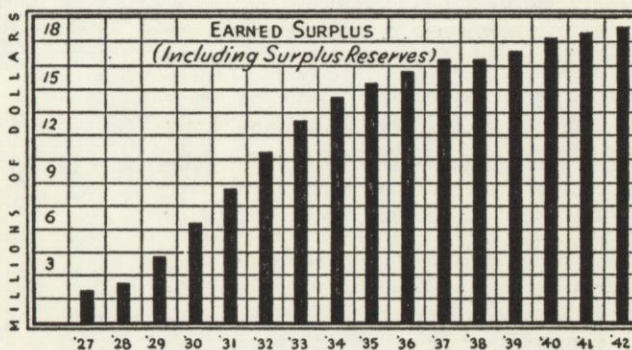
Net Profits—Fiscal Years

1927	\$1,492,193	1933	\$4,220,099	1939	\$2,774,366
1928	1,593,358	1934	4,394,830	1940	2,739,074
1929	2,904,884	1935	3,433,504	1941	2,508,719
1930	4,773,446	1936	3,163,329	1942	2,380,294
1931	4,479,108	1937	3,647,001		
1932	4,825,611	1938	2,705,191		



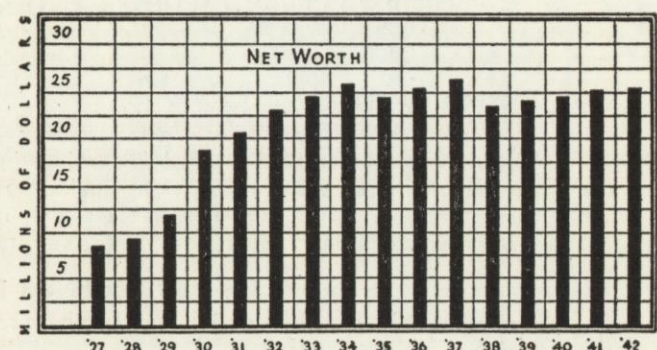
Per Share Common—Fiscal Years

1927	\$1.92	1933	\$4.78	1939	\$3.38
1928	2.09	1934	4.97	1940	3.34
1929	4.07	1935	3.89	1941	3.06
1930	5.39	1936	3.65	1942	2.90
1931	5.03	1937	4.24		
1932	5.52	1938	3.14		



Surplus (Including Surplus Reserves)
Fiscal Years

1927	\$1,996,375	1933	\$12,666,672	1939	\$17,423,131
1928	2,238,303	1934	14,213,494	1940	18,112,565
1929	3,987,782	1935	15,121,448	1941	18,572,964
1930	6,369,726	1936	16,062,827	1942	18,889,476
1931	8,371,910	1937	16,670,118		
1932	10,816,321	1938	16,688,036		



Net Worth—Fiscal Years

1927	\$8,723,782	1933	\$24,644,094	1939	\$24,216,168
1928	8,965,710	1934	26,190,916	1940	24,874,883
1929	11,724,410	1935	24,820,470	1941	25,293,286
1930	18,347,148	1936	25,761,849	1942	25,625,755
1931	20,349,333	1937	26,369,140		
1932	22,793,743	1938	23,746,089		

On March 28, 1942 we had in operation 175 less stores than on March 29, 1941. Of the above 1299 grocery stores, 93 are self-service grocery stores and of the 449 combination stores, 246 are self-service markets.

BANK LOANS

Due principally to the higher cost prices of our inventory and the need to carry greater stocks of merchandise for our increased sales demand, we have during the fiscal year borrowed on demand and on six months time notes \$4,000,000 from the First National Bank of Boston and that amount was outstanding on March 28, 1942. On May 11th, 1942, these notes were transferred by agreement to a five year loan. We agreed to pay \$640,000 annually on the principal and the balance on May 11, 1947, with interest at $2\frac{1}{2}\%$ per annum. This loan is to be treated as a current liability and we may pay it off before maturity if we elect to do so.

TAXES

For the fiscal year ending March 28, 1942, earnings were charged with direct taxes of \$2,647,530. This amounts to 52% of our profits before taxes for the year or \$3.23 for each share of our Common Stock. A summary of our direct taxes follows:

<i>Fiscal Year</i>	<i>Total Direct Taxes</i>	<i>% of Income (before taxes)</i>	<i>Per Share On Common</i>	<i>Per Store Operated</i>
1942	\$2,647,530	52%	\$3.23	\$1,514
1941	2,002,231	44%	2.44	1,041
1940	1,656,274	37%	2.02	753
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

EMERGENCY PRICE CONTROL ACT OF 1942

On May 18, 1942, under authority contained in the Emergency Price Control Act of 1942, the General Maximum Price Regulation became effective upon retail prices. Under this regulation our retail prices (with some exceptions) cannot be higher than the highest price charged for the same merchandise in each of our stores during the month of March, 1942. Manufacturers' and Wholesalers' prices (with some exceptions) cannot exceed their maximum selling prices for the month of March, 1942. This use of the same base period for ceilings on retail as well as wholesale and manufacturing prices creates a serious operating problem for our company and for retailing in general.

For many months prior to the issuance of the General Maximum Price Regulation our company, and retailers in general, at the request of Price Administrator Leon Henderson had been voluntarily cooperating with the Government in the desirable objective of preventing extreme inflationary price rises. During this period our company and most retailers used cost rather than the higher replacement market in pricing their goods for sale at retail. This cooperation by most retailers was publicly commended by the Price Administrator who in reference to this matter stated "They have done a good job".

As a result of this cooperative policy, we and most retailers now face insufficient mark-ups upon many items in our inventory because the General Maximum Price Regulation fails to make allowance for this obvious fact: that in a rising market—such as we have had since 1940—there is a time "lag" and a price "lag", between the date of the sale at retail of a commodity and the date on which that particular article was bought by the retailer. To illustrate: Articles sold at retail in March, 1942, in many instances were bought as far back as August or September, 1941 and upon these costs in August or September, 1941, the retailer based his selling price in March, 1942. Now the selling price is frozen and these goods when replaced by the retailer will cost materially more at the manufacturer's or wholesaler's March ceiling price—and consequently the retailer's margin will be cut down or in some cases eliminated.

Approximately 30% of the sales of our company are not covered by the Regulation and upon this portion of our business there is no problem. Another 30% of our sales, covered by the Order, represents transactions of such rapid turnover that the Price Regulation has but little effect. It is upon the remaining 40% of our sales that this problem centers. These sales are principally of goods of our own manufacture and goods which we buy once a year (such as canned vegetables, canned fruits, canned meats, etc.) and other goods which, customarily, we buy several months' supply at one time.

The officers of your company have been working with the Office of Price Administration in attempting to solve this problem. O. P. A. officials understand and are sympathetic with our problem and are endeavoring to find a solution. The situation is such that either subsidy on a large scale or higher ceilings at retail must be granted—in order to solve this problem.

Due to the fact that we do not now know what action the O. P. A. will take to relieve or remedy this situation, it is not possible for us to state or estimate what the effect will be upon our future operations.

PUBLIC RELATIONS

The nature and direction of our public relations inevitably have been considerably reshaped by the war, the Number 1 factor in American life. The impact of the total war program has brought a great variety of co-operative activities. We regard our Company as vital to public welfare in war-time, as in peace-time, engaged as it is in the economical distribution of life's greatest material necessity, food.

Better nutrition, for example, has been a primary objective of national policy, and we have increased our efforts in spreading the facts of modern scientific nutrition and in relating our advertising and merchandising to the program as set up by governmental agencies. A typical contribution in this field was a conference on nutrition, sponsored by First National Stores Inc. in which over a thousand teachers and leaders, participated. In many other ways, we have adapted our facilities to the nutrition objective in such a manner as to gain a widespread approval.

Other phases of our over-all co-operation in the war program have included the advertising and sale of war bonds and stamps to employees and the general public; counsel and aid to farmers for whom special distribution problems have been created in war-time; co-operation in salvage and conservation campaigns; education of the public regarding rationing and food quotas, and participation in the work of the various war service groups such as Red Cross and Civilian Defense. We have also maintained our contributions to civic, charitable and community projects at normal levels.

STOCKHOLDERS

Our latest dividend list shows 9,621 common stockholders. These shareholders reside in practically every city and town in New England where our stores are located and throughout the rest of the United States and some foreign countries as well. We have an average of over 5 stockholder-owners for each store we operate.

The following table shows the number of our common shareholders at various intervals since 1926.

			<i>As of March</i>				
<i>1942</i>	<i>1941</i>	<i>1938</i>	<i>1935</i>	<i>1932</i>	<i>1929</i>	<i>1926</i>	
9,621	9,481	9,228	6,576	4,607	1,975	1,304	

TREASURY STOCK — OPTIONS

Of the 9,057 shares of common stock acquired by purchase and on hand in our treasury on March 28, 1942, 3,820 shares are set aside under option to certain employees for \$183,658.90 or an average of \$48.08 per share. These options expired May 19, 1942, without having been exercised and were not renewed.

We take this opportunity to record our thanks and appreciation to our employees who have loyally supported and cooperated with our management during the past year.

On June 1, 1942, nearly 1,400 of our employees had joined the Military Services of our Country. We know they will do a good job and we wish them a speedy and successful return.

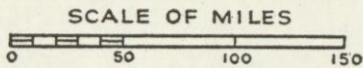
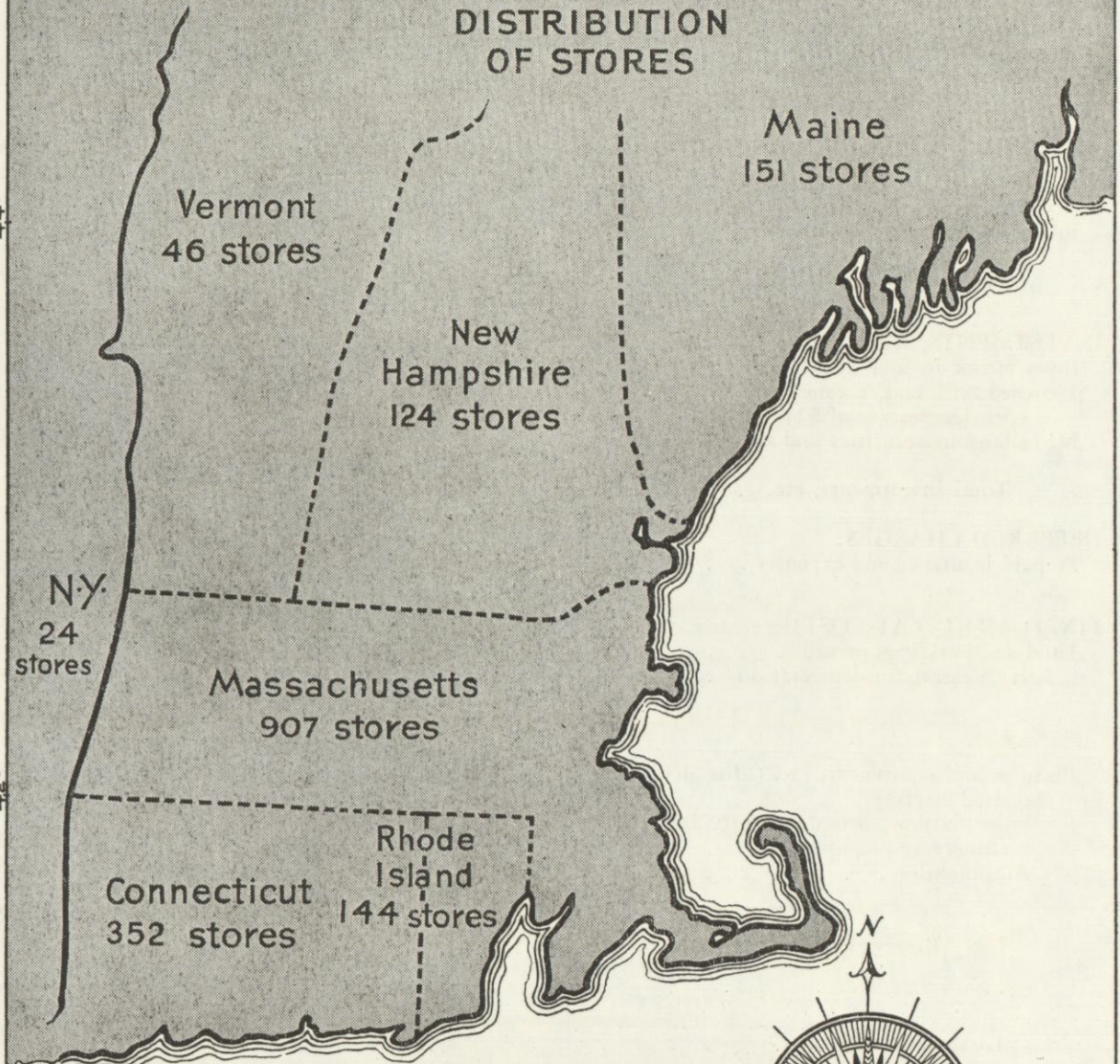
ANNUAL MEETING — PROXIES

A proxy statement and proxy were mailed to you June 5, 1942, which gave notice that the annual meeting would be adjourned to a later date. A notice of the date of the adjourned meeting accompanies this report. Stockholders who have not already done so are requested to sign the management's authorized proxy and mail promptly in the return envelope provided. Your immediate cooperation in this important matter will save your Company much time and expense and will be greatly appreciated.

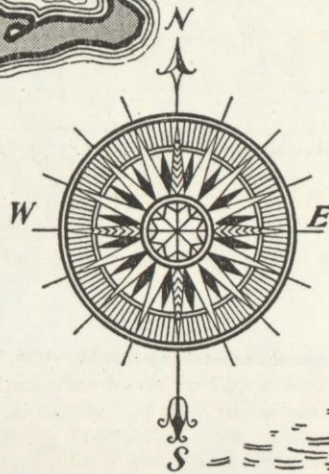
ARTHUR O'KEEFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES



Total Number of Stores
as of March 28, 1942
1748



72°

70°

FIRST NATIONAL STORES INC.
Comparative Balance Sheet—March 28, 1942 and March 29, 1941

ASSETS		March 28, 1942	March 29, 1941	Increase *Decrease
CURRENT ASSETS:				
Cash in banks and on hand (after deducting \$511,605 for dividends payable April 1, 1942)		\$5,788,895.11	\$5,324,029.01	\$464,866.10
U. S. Government securities (at market quotations March 28, 1942—approximately \$84,000)		80,000.00	1,580,000.00	*1,500,000.00
Accounts receivable, less reserve		730,942.50	428,816.70	302,125.80
Accounts receivable—officers and employees		4,781.70	3,790.29	991.41
Inventories (see Note)		20,464,501.39	14,257,568.77	6,206,932.62
Total current assets		<u>\$27,069,120.70</u>	<u>\$21,594,204.77</u>	<u>\$5,474,915.93</u>
INVESTMENTS, ETC.:				
Investments in and advances to wholly-owned milk and creamery subsidiaries— at cost, less reserve of \$24,729.92		\$317,603.12	\$317,603.12
Miscellaneous securities and advances		58,825.63	71,581.87	*12,756.24
Total investments, etc.		<u>\$376,428.75</u>	<u>\$389,184.99</u>	<u>*\$12,756.24</u>
DEFERRED CHARGES:				
Prepaid insurance and expenses		\$747,195.25	\$651,051.12	\$96,144.13
FIXED ASSETS (AT COST):				
Land and buildings owned		\$7,167,191.15	\$7,146,769.67	\$20,421.48
Less—Reserve for depreciation		2,085,290.05	1,893,718.47	191,571.58
		<u>\$5,081,901.10</u>	<u>\$5,253,051.20</u>	<u>*\$171,150.10</u>
Fixtures and equipment, etc. (after deducting fully-depreciated assets)—				
Store fixtures, leased property improvements, machinery and equipment		\$7,478,783.09	\$7,884,195.00	*\$405,411.91
Automobiles		573,541.21	552,307.52	21,233.69
		<u>\$8,052,324.30</u>	<u>\$8,436,502.52</u>	<u>*\$384,178.22</u>
Less—Reserve for depreciation		3,430,402.67	3,918,352.86	* 487,950.19
		<u>\$4,621,921.63</u>	<u>\$4,518,149.66</u>	<u>\$103,771.97</u>
Total fixed assets		<u>\$9,703,822.73</u>	<u>\$9,771,200.86</u>	<u>*\$67,378.13</u>
GOODWILL		\$1.00	\$1.00
		<u>\$37,896,568.43</u>	<u>\$32,405,642.74</u>	<u>\$5,490,925.69</u>

NOTE: Merchandise in retail stores at March 28, 1942 and March 29, 1941 was valued at approximate average cost (on the basis of first-in, first-out) which did not exceed market; other merchandise, materials and supplies at March 28, 1942 (aggregating \$10,879,943.34) were valued at cost on the basis of "last-in, first-out" and at March 29, 1941 were valued at the lower of most recent cost or market.

FIRST NATIONAL STORES INC.
Comparative Balance Sheet—March 28, 1942 and March 29, 1941

LIABILITIES		March 28, 1942	March 29, 1941	Increase *Decrease
CURRENT LIABILITIES:				
Notes payable—bank	\$4,000,000.00	\$	\$4,000,000.00	
Accounts payable	4,455,706.45	4,043,522.60	412,183.85	
Accrued local and state taxes and other expenses	1,464,747.75	1,256,519.75	208,228.00	
Employees' investment certificates	289,100.00	306,780.00	*17,680.00	
Reserve for federal income and excess profits taxes	1,467,020.48	913,726.90	553,293.58	
Total current liabilities	\$11,676,574.68	\$6,520,549.25	\$5,156,025.43	
RESERVES:				
For contingencies	\$334,600.58	\$334,600.58	\$	
For preferred stock sinking fund	80,630.50	*80,630.50	
Miscellaneous	259,637.33	257,206.10	2,431.23	
Total reserves	\$594,237.91	\$672,437.18	*\$78,199.27	
CAPITAL STOCK AND SURPLUS:				
8% preferred stock (at March 29, 1941)				
Authorized—72,007 shares, par value \$10 each				
Issued—7,007 shares	\$	\$70,070.00	*\$70,070.00	
Common stock—				
Authorized—1,000,000 shares without par value				
Issued—827,634 shares	6,977,422.07	6,977,422.07	
EARNED SURPLUS	18,889,476.40	18,492,334.45	397,141.95	
Together	\$25,866,898.47	\$25,539,826.52	\$327,071.95	
Deduct—Capital stock held in treasury:				
Common stock, at reduced amounts carried on books—				
9,057 shares				
8% preferred stock, at cost—6,897 shares (at March 29, 1941)	\$241,142.63	\$241,142.63	\$	
	86,027.58	*86,027.58	
	\$241,142.63	\$327,170.21	*\$86,027.58	
Total capital stock and surplus, less treasury stock	\$25,625,755.84	\$25,212,656.31	\$413,099.53	
	\$37,896,568.43	\$32,405,642.74	\$5,490,925.69	

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have examined the comparative balance sheet of First National Stores Inc. as of March 28, 1942 and March 29, 1941 and the statements of earnings and surplus for the fiscal year ending March 28, 1942. In connection therewith, we have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

During the fiscal year ending March 28, 1942 the company adopted the method of valuing certain of the inventories on the basis of the "last-in, first-out" method of valuation. Heretofore all inventories were valued on the basis of cost (determined on the "first-in, first-out" method of valuation), or market whichever was lower. As a result of this change in accounting policy, which we approve, the inventories at March 28, 1942 have been stated in the accompanying balance sheet at an amount approximately \$2,069,000 less than they would have been stated if valued on the basis formerly used; the effect on the net profit (after Federal income and excess profits taxes) for the fiscal year ending March 28, 1942 was a reduction of approximately \$571,000. This change in method of valuing inventories is subject to review and acceptance by the U. S. Treasury Department.

In our opinion, the accompanying comparative balance sheet and related statements of earnings and surplus present fairly the position of First National Stores Inc. at March 28, 1942 and March 29, 1941 and the results of its operations for the fiscal year ending March 28, 1942, in conformity with generally accepted accounting principles which, with the exception of the change referred to in the preceding paragraph, have been applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts.
June 19, 1942.

FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS—FISCAL YEAR ENDING MARCH 28, 1942

Sales		\$174,378,932.56
<i>Less:</i>		
Cost of sales, expenses, etc. (exclusive of depreciation)		169,516,421.14
		\$4,862,511.42
<i>Deduct:</i>		
Depreciation on fixed assets		1,004,865.75
		\$3,857,645.67
<i>Add—Other income:</i>		
Interest and dividends received		146,032.56
		\$4,003,678.23
<i>Deduct—Other charges:</i>		
Interest paid	\$ 48,112.46	
Loss on disposition of fixed assets (net)	237,773.51	285,885.97
		\$3,717,792.26
<i>Deduct:</i>		
Provision for federal income taxes	\$1,093,253.69	
Provision for federal excess profits tax	244,243.72	1,337,497.41
		\$2,380,294.85
Net profit for the fiscal year ending March 28, 1942		\$2,380,294.85

STATEMENT OF SURPLUS FOR THE FISCAL YEAR ENDING MARCH 28, 1942

Earned surplus at March 29, 1941		\$18,492,334.45
<i>Add:</i>		
Net profit for the fiscal year ending March 28, 1942.		2,380,294.85
8% preferred stock sinking fund restored to surplus.	\$80,630.50	
<i>Less—Excess of cost of 8% preferred stock retired over par value thereof.</i>	17,363.40	63,267.10
		\$20,935,896.40
<i>Deduct:</i>		
Dividends paid on common stock		2,046,420.00
Earned surplus at March 28, 1942		\$18,889,476.40

